

May 7, 2010

Mr. Scott Berman
Acting Chief Operating Officer
CDFI Fund
U.S. Department of the Treasury
601 13th Street St. NW, Suite 200 South
Washington, DC 20005

Dear Mr. Berman:

Cooperative Business Assistance Corporation is a \$14 Million small business loan CDFI located in Camden, NJ. Over the year we received CDFI funds totaling \$1.05 Million from the CDFI Fund. Since 1994, the CDFI Fund has built a track record of success as unique federal program and a model of successful public-sector investment, leveraging limited federal resources into billions of dollars in private-sector investment. With the support of the CDFI Fund, the CDFI industry has grown into a \$30 billion industry poised to play an even more important role in the years ahead. The Fund can build on this fifteen-year track record of partnership with the opportunity finance industry to bring federal support of community development finance to a new level.

I would like to bring your attention to issues that we believe is critical to the well being of the CDFI industry and the CDFI Fund as well. Over the years, I believe the CDFI fund has moved away from the CDFIs it originally primarily assisted. To that end I wish to make the following points:

- * Recognize that equity capital is still the most important resource the Fund can provide to CDFIs. Equity capital continues to be the most pressing need of the opportunity finance industry; institutions' need for equity infusions does not diminish with age, growth, or success. For example, for those of us providing small business loans, the New Markets Tax credits is not a product we can use, nor is the new residential housing products.

- * Invest in CDFIs of all types, sizes and sectors. There is no "one-size-fits-all" approach to community development or providing financial services to distressed markets. The CDFI Fund has helped seed a vibrant national CDFI industry by providing equity capital to the full range of CDFIs that offer loans, investments, and financial services. Different CDFIs serve different target populations and geographies with a variety of products and services. The Fund must assure that application materials and the review process for Fund programs acknowledge and value the different business strategies pursued by community development banks, credit unions, loan funds and venture funds.

- * Continue strong emphasis on performance-based awards. The Fund's use of competitive application processes to make performance-based awards, with enforceable performance covenants, is a significant strength which differentiates the Fund from other federal programs. The Fund should continue to ensure that all its programs reward financial performance and excellence in community development impact.

- * Promote the CDFI Fund model of supporting intermediary institutions to leverage private resources. Other federal agencies and programs have much to learn from the CDFI Fund approach to government investment. The Fund should use its Community Development Advisory

Board to promote its model of making competitive awards based on performance and sound business plans. The Fund can also be an advocate for new federal strategies to support CDFIs.

- * Be flexible on defining target markets. The Fund should not adopt policies or definitions that target areas of "high" economic distress. Note that we live in "regional" economies and lend in areas that include areas that are in high economic distress. Also, to facilitate CDFIs' designation of a CDFI's Target Market, the Fund should invest significantly in technology and information systems infrastructure. These upgrades would improve the CDFI Fund mapping system; ensure that CDFIs were using timely and relevant data; and could facilitate CDFIs' integration of their own data into government datasets.

- * For CDFI Certification keep standard high. Over the last years I have seen more and more entities receive CDFI certifications that seem to lack some of the old eligibility standards. Shouldn't the CDFIs have their own lending staff with a proven track record? We recognize the widespread traction that "Treasury Certification" has gained among public and private-sector investors. For that reason it is critical that the Fund uphold standards for certification. The certification should be descriptive and confer some degree of judgment on financial soundness as well—it is a statement that an organization operates as a CDFI and is financially sound. Certification is, at its core, the Fund's method of determining eligibility for its programs. We believe that the current "financing entity" test does not accurately reflect the finance-driven strategy of CDFIs and allows organizations that are not financing entities to be certified.

Although the CDFI Fund should not allocate specific funding streams for particular types, we believe the Fund should take steps to ensure that various types of CDFIs can compete effectively. Such steps include:

- * Ensuring that reviewers are well-versed in the structure, mission, and products of various CDFI sectors, or that only reviewers experienced in a particular sector review applications from those CDFIs;

- * Tailoring applications so that, for example, depository institutions can demonstrate their transaction services; CDFIs can use primary-source data to explain their strategy; CDFIs with national marketplaces can describe that national market rather than focusing on only part of it; and intermediary CDFIs can adequately discuss their impact;

- * Facilitating the use of FA awards as Tier 1 equity capital in depository institutions.

By adhering to the core principles that have made it successful, the Fund can help stimulate a new era of CDFI participation in the nation's economy. The CDFI model can anchor federal policy around community development finance and help build vibrant urban, rural, and reservation economies in which all Americans can fully participate.

I appreciate the opportunity to provide comment. Please do not hesitate to contact me if you have questions or concerns about the ideas or recommendations in this letter.

Sincerely,

R. Michael Diemer
CEO/Executive Director
Cooperative Business Assistance Corporation